

**WASHINGTON – Congressman Spencer Bachus (AL-6), Ranking Member on the House Financial Services Committee, delivered the following remarks on the financial system and the U.S. economy at the Women in Housing and Finance group today.**

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Hello and good afternoon. Thank you Mary Martha for the thoughtful introduction. It is a great honor to speak at what has become one of the premier venues for congressional leaders from both parties and chambers to discuss our economic challenges and landscapes.

The swearing in of President Obama yesterday marked a historic day and an important day that we as citizens of this great nation should be most proud of. Growing up in Alabama in the 1960s, I and most Birmingham natives know first-hand the horror, tragedy and heartbreak of a racially divided community. My father was one of the first contractors to hire African American subcontractors and was the target of prejudice and even vandalism of his company's jobsites.

I am proud of him, and I joined millions of other Americans in celebrating

how far our nation has come in the last 50 years, further in that time than in the 100 years before, from 1865 to 1965. Many of my friends from Alabama who had felt the sting of discrimination journeyed to Washington. To witness their joy and sense of dedication and love for America was inspiring.

Regardless of party affiliation, political philosophy, religious beliefs, demographics, social or economic standing, we, as a country, should be proud of the once unthinkable hurdles we have overcome.

There was an occurrence in my office yesterday that perfectly illustrates the healing that has transpired in America and gives hope for the future. About 30 constituents from Congressman Danny Davis's Chicago District were in the hallway, unable to squeeze into the Oversight and Government Reform hearing room to view President Obama's speech on television. My staff invited them in and they all watched the speech together in my office. That is a mighty transformation in the forty years since the racial turmoil in Birmingham.

Yesterday we came together in celebration of that hope and promise that is America. We have a unique opportunity, as does President Obama, to build on that spirit of unity. No one doubts that America is facing a severe financial and economic crisis. Today begins again the work of preserving and strengthening that heritage for ourselves, and more importantly, for future generations by confronting the challenges before us. We best do that working together.

As I thought about what to say to you today, the theme “Facing the Consequences” seemed to be appropriate for our current circumstances because enormous and unprecedented government interventions in our economy will have enormous and unprecedented consequences. I found a few quotes to illustrate that theme. One that sheds light on how we got here is from a thinker probably well known to all of you: “Consequences, shmonsequences! So long as I’m rich!” Daffy Duck. It is not widely known, but Daffy was an investment banker before Walt Disney hired him.

Equally applicable to our situation is a comment by Anonymous, that wisest of philosophers, who said: “Results are what you expect, consequences are what you get.”

Truer words were never spoken.

There has been much discussion over the causation of the current economic turmoil and a developing consensus as to the factors precipitating it, although not total agreement as to the role or contribution of individual factors. A reiteration of causes, or one covering how bad the present problem is, therefore, of little additional value. Nor do I believe I am

especially qualified to predict the likelihood or path of recovery, or be so egotistical as to lay out chapter and verse a plan for how we achieve a successful result.

Instead I would like to offer my opinion, as well as my observations which led to my opinion, on a subject matter I sincerely believe I was and am well positioned to offer, as a sometimes participant, most times spectator, in the so-called “government response” to the crisis. As I do so, I cannot stress more strongly that it is my opinion I offer, not another’s opinion or my party’s opinion. My remarks are offered as advice for our future efforts, and not as criticism of earlier actions.

The critical failure in the government’s response to the financial crisis is that we are waiting for events to overtake us and then reacting in an environment of crisis. Once taken, the action is one of avoidance, not confrontation. The problem precipitating the original crisis, and the consequences, remain and grow worse.

The essence of the problem, the core breakdown in decision making, is that we postpone decisions until we are overwhelmed by the problems of the day. These problems then become urgent, and appear to dictate the need for immediate action.

This reactionary “fire brigade” mentality reinforces a vicious cycle characterized by:

1. A seeming if not total lack of long term planning. This in turn leads to actions which may accomplish short term positive results but potentially create far more serious long term negative consequences. The all too common experience of a stressed homeowner increasing his borrowing limit on his 12 or 14 percent credit card time after time to make a mortgage payment comes to mind.

2. Little or no opportunity for deliberative and thoughtful dialogue or discussion. No consideration or vetting of alternatives. This leads to a multitude of shortcomings and misunderstandings. In a democracy, it is essential to attempt to build some semblance of an understanding between the branches of government and between the government and the people.

Each federal regulator, each government agency, the Administration, and the House and the Senate each has different responsibilities and a somewhat different constituency, and brings to the table different perspectives and expertise.

3. A rush to judgment which violates long established tenets of

acceptable government action or intervention, all too often crossing the Rubicon. In the name of emergency, these what I will term “trip points” are sometimes crossed without either realizing or at least appreciating that the action violates sound economic policies. Even worse, some of our actions have violated long held and respected principles underpinning our economic system or even values and mores of our wider society. My fear is that what we thereby reach is a point of no return.

4. All of this creates unwarranted expectations and unintended consequences, and undermines confidence, leading to more severe problems. We are then left to start over, but worse off than when we began. Frequent shifts of hastily devised policies further undermine confidence.

5. Our actions create ambiguities and conflicts of interest. The doctrine of too big to fail also implies too small to save and most Americans do not accept that premise. As an example of ambiguity, we were told the bailouts of AIG, Bear Stearns and others were necessary because they were going to fail if we didn’t inject capital. The same “they will fail” argument was used to justify hundreds of billions of dollars of capital injections for the largest banks under the TARP program. But now, we are being told we can’t inject capital into community banks unless they can prove they are viable, that is, they are not going to fail.

This sounds like the old banker joke that says they will loan you money only if you can show you don't need it. But there is nothing funny about financial institutions and businesses failing.

6. We have also engendered widespread conflicts of interest. We inject capital in banks because we want to encourage lending. But the banks want to conserve capital to maintain their solvency and to satisfy regulators. Which message is it that we intend to send?

There is a crudeness to how we are doing all this, a lack of critical thinking. In the run-up to the adoption of the TARP legislation, we made decisions based on how the markets were reacting. In the September 18th meeting with Secretary Paulson, Chairman Bernanke and the Congressional Leadership, after Chairman Bernanke described the dire circumstances we faced, the very first remark by a senior Congressional leader was "The DOW is up."

At the end of the day, we were told the only plan to be considered was to buy illiquid assets because we faced an emergency, we must act immediately and did not have time to examine alternatives.

Then, without any real public explanation, the plan for the use of the

enormous amount of tax-payers money was converted to direct capital injections. Similarly, we received repeated Saturday or Sunday calls announcing intervention after intervention. No discussion, no adequate preparation, no explanation to the people whose money is being committed.

In a properly functioning democracy, there must be the opportunity for dissent, thorough discussion and the presentation of alternatives. In a tyrannical system, this can be denied by the despot at the head of the government. But it can also be denied by desperate events. In our system, the danger is that despotic events cause us to abandon our responsibility to examine alternatives and take sufficient time to ensure our actions are well thought out. We must find a way to avoid this.

Decisions continue to be made in a stress-filled environment under the pressure of short-term crises. In the best case you have flawed action. In the worst case, the policy is wrong and wreaks havoc.

To solve this problem it will take long term planning and strategy. In the coming weeks and months, I will be urging my colleagues to recognize that we must face the consequences and successfully navigate our way to a safe, more prosperous, more stable America.



We must do this in a thoughtful, deliberate comprehensive way. We must think long range terms, not base decisions on one day's DOW Jones Report or how the Asian markets are likely to react.

We acknowledge we are in an economic crisis. It is very serious. It is a threat not only to economic prosperity but also cultural and societal underpinning. Out of this is an opportunity. We need to engage conservatives, moderates, liberals, consumer groups, Independents, Republicans and Democrats to work together to fashion a comprehensive long term solution.

This will not be easy for the Majority. They have the votes, the power to adopt their proposals with no opportunity for dissent or alternatives. But if they do that, all we will have is emergency room medicine. We won't have preventative care, but a continued succession of economic patients being rolled in on stretchers for the next transfusion of taxpayer money. To do so, there has to be give and take. Call it a grand bargain or a national consensus.

We talk about interconnectedness, but it is not only in the financial world that

linkages matter. In dealing with the financial crisis, we must also take into account that tax policy, housing policy, entitlement programs, health care, monetary policy and fiscal policy are all also interrelated. Changes in monetary policy affect interest rates and that changes who will buy houses. An income tax deduction for mortgage interest but not for rent affects the housing choices our citizens make.

If we are going to work together to fashion a comprehensive long term solution, several vital elements must be part of the conversation:

1. Tax Reform-corporate tax rate is practically the highest in the world, 2nd only to Japan;
2. Tax policy and how it relates to housing policy;
3. Foreclosure mitigation that recognizes that borrowers and lenders are not the only participants affected by foreclosed houses- neighborhoods and communities are also impacted by the blight of empty homes with enormous social and cultural ramifications ;
4. Investor and consumer protection: Not more regulation but effective, understandable disclosure, transparency and accountability;
5. A replacement of the Depression era regulatory structure with a 21st Century regime to reflect changes in the financial system.

6. Entitlement reform without which the short-term fixes like TARP and stimulus packages will prove fruitless. Any proposal that doesn't address economic, social and cultural factors as a whole will not adequately deal with the problems we face, and we will get "consequences", not the "results" we seek. That will leave us right back where we are today.

I speak only for myself, but I propose to my colleagues on both sides of the aisle that we acknowledge that we are in economic crisis, and that it threatens not only our prosperity, but also our cultural and social underpinning. We should all agree that we will look at the proposals to solve this crisis regardless of their source. And we must view it as a system, that must be worked on as a whole not in pieces.

Let me close where I began. Yesterday's inaugural events once again reminded us of the strength and resilience of the American people. This morning the ceremonies closed at the National Cathedral where we heard the inspiring words of the beautiful song Amazing Grace. "Through many dangers, toils and snares...we have already come. T'was grace that brought us safe thus far...and grace will lead us home." We are Americans. I have no doubt that within us we have the will and wisdom to meet the challenges that lay before us.

It has been a pleasure to address you. With that, I'd be pleased to take any

of your questions.